

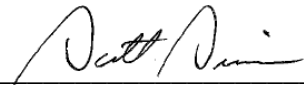
CERTIFICATION

We, Sue W. Cox, Board Chair, and Scott Simon, Executive Director, Board of Trustees, MoDOT & Patrol Employees' Retirement System, hereby certify that the foregoing are full, true, and complete minutes of the meeting of the Board held on November 17, 2016 in Jefferson City, Missouri, as approved by said Board at its meeting held February 23, 2017.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on February 23, 2017.



Chairman



Executive Director

Minutes of Meeting

November 17, 2016





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Adjourn	



BOARD OF TRUSTEES' MEETING

THURSDAY, NOVEMBER 17, 2016

1:00 p.m.

**Meadow Lake Acres Country Club
2600 Meadow Lake Dr.
New Bloomfield, Missouri**

TRUSTEES PRESENT: Colonel J. Bret Johnson, Chair
Ms. Sue W. Cox, Vice Chair
Mr. John Briscoe
Mr. Patrick McKenna
Mr. Mike Pace
Representative Shawn Rhoads
Mr. William "Bill" Seibert
Major Kemp Shoun
Mr. Gregg Smith
Mr. Todd Tyler

TRUSTEES ABSENT: Senator Dave Schatz

STAFF PRESENT: Mr. Scott Simon, Executive Director
Mr. Greg Beck, Assistant Executive Director
Mr. Larry Krummen, Chief Investment Officer
Ms. Greta Bassett-Seymour, General Counsel
Ms. Jennifer Even, Chief Financial Officer
Ms. Lois Wankum, Executive Assistant II

GUESTS/PRESENTERS: Mr. Kevin Leonard, NEPC
Mr. Ken Alberts, GRS
Mr. Mike Winter, Legislative Consultant

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, November 17, 2016, at the Meadow Lake Acres Country Club located at 2600 Meadow Lake Drive in New Bloomfield, Missouri. The meeting was called to order by Colonel Johnson pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

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APPROVAL OF MINUTES

Upon a motion by Mr. McKenna, and seconded by Mr. Seibert, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on September 29, 2016.

The Chair and Executive Director were authorized and directed to sign and certify said minutes and to file same in the office of the Executive Director.

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CONSENT AGENDA

To make the most efficient use of Retirement Board meeting time and to ensure the Trustees are well informed on issues requiring their action, the Executive Director prepares in advance and submits to the Trustees, items consisting of advice, opinions, and recommendations related to subjects on the Board meeting agenda. Items considered by staff to be of a routine or non-controversial nature are placed on the consent agenda. During the meeting, items may be removed from the consent agenda at the request of any one Trustee. Items not removed from the consent agenda are approved with a single motion and a unanimous vote by a quorum of the Trustees in attendance.

Minutes reflecting approval of items on the consent agenda are singly reported herein and thus, are intermingled with minutes reflecting action on related subjects as discussed. Reference to “consent agenda” is made in each minute approved via the process described above. Minutes reflecting action on items removed from the consent agenda and openly discussed reflect the open discussion and the vote thereon.

No items were removed from the consent agenda. Upon a motion by Mr. Briscoe and seconded by Mr. Smith, all items on the consent agenda were unanimously approved.

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INVESTMENT COMMITTEE REPORT

– by Mr. Mike Pace, Investment Committee Chair

Mr. Pace informed Trustees the minutes from the September 29, 2016 Investment Committee meeting were provided for their information.

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CIO INVESTMENT REPORT

– by Mr. Larry Krummen (MPERS) and Mr. Kevin Leonard (NEPC)

- **Investment Performance Report for Quarter Ending September 30, 2016.**

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the quarter ending September 30, 2016. As of September 30, 2016, MPERS’ net asset value was \$2.03 billion. As of November 10, 2016, MPERS’ fiscal year to date return stands at an estimated 2.0%. MPERS’ three year return ranks in the top 1% of the peer universe, and both the five and ten year returns rank at/near the top quartile of performance. MPERS’ ten-year risk profile continues to rank favorably relative to our peers (with risk defined by standard deviation of returns).

- **Current Asset Allocation Overview/Positioning Relative to Targets**

The presidential election has done little to change MPERS view of the current market environment. Equity markets quickly recovered and are once again approaching all-time highs. The market is clearly viewing the prospects of a Republican President, House, and Senate as favorable to corporate America, on the hopes President-elect Trump can deliver on his promises of lower corporate income tax and reduced regulatory burdens for small businesses. There remains a lot of uncertainty surrounding whether President-elect Trump can deliver on these promises, and whether his policies will actually spur a new phase of economic growth. Together with interest rates rising (and subsequently bond prices falling) on Trump’s inflationary fiscal plan, we continue to maintain a cash balance of roughly \$85 million (or 4.2% of assets) with the goal of deploying that cash as market opportunities present themselves.

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AUDIT COMMITTEE REPORT

– by Mr. Bill Seibert, Audit Committee Chair

Mr. Seibert, Audit Committee Chair, reported the Audit Committee met on November 9, 2016, with Mr. Mike Oldelehr and Ms. Laura Hockett of Williams-Keepers who presented the results of the audit for the fiscal year ended June 30, 2016. Mr. Seibert gave a brief recap of the committee meeting and presented the following results from the audit report.

- **Results of Annual Audit For Fiscal Year Ended June 30, 2016**

Mr. Seibert stated in the opinion of Williams-Keepers, LLC, the financial statements present fairly, in all material respects, the plan net assets of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System as of June 30, 2016, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

The only new accounting principle for this year is Governmental Accounting Standards Board (GASB) Statement No. 72, which deals with additional disclosures on fair value of investments.

Mr. Seibert indicated Williams-Keepers was pleased to report they encountered no difficulties in dealing with management in performing and completing our audit. All MPERS' personnel cooperated with them fully during the conduct of their audit. He also noted there were no new recommendations from the audit.

For the fiscal year ending June 30, 2018, MPERS will be required to implement GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. In general, this Statement will require the System to record and report the net liability for postemployment benefits other than pensions, along with deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It also requires significant changes to the footnote disclosures and required supplementary information.

Mr. Seibert stated the Committee is requesting the Board's acceptance of the Audit Report. Upon a motion made by Mr. Pace, and seconded by Mr. Tyler, the Board of Trustees accepted the annual audit for fiscal year ended June 30, 2016.

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GOVERNANCE COMMITTEE REPORT

– by Ms. Sue Cox, Governance Committee Chair

• **Revisions Board Rules and Board Governance Policies**

Ms. Cox, Governance Committee Chair, gave a brief recap of the committee meeting held on October 20, 2016. The Committee recommended approval of changes to the following Board Rules and Board Governance Policies:

Board Rules:

Board Rule 1-5 Board Election Procedures:

- a. Removed the paper ballot from the process given the decision in 2013 to conduct the election electronically through *myMPERS* secure member access online. The paper vote counting process was also removed.
- b. Requires the use of a Candidate Declaration Form rather than allowing members to randomly nominate board candidates.
- c. Outlines the controls in place to ensure a fair ballot count.
- d. There are numerous wording changes included to clarify the rule or reflect current practices.

Board Rule 3-3 Computation of Credit (Closed Plan)

Board Rule 4-2 Computation of Credit (Year 200 Plan)

Board Rule 5-4 Computation of Credit (2011 Tier)

Clarified when rounding the number of days is used in calculating benefit vs. determining eligibility for all three rules.

Board Rule 4-6 Employees with Multiple Types of Service (Year 2000 Plan)

Board Rule 5-5 Employees with Multiple Types of Service (2011 Tier)

New rule that clarifies the application of multiple types of service for Board Rules 4-6 and 5-5.

Board Governance Policies:

Orientation and Education: Added a reference to the applicable statute for clarity.

Board Travel and Expense:

- a. Clarified the policy to reflect that Section 104.180.3, RSMo., requires MPERS to reimburse trustees for necessary expenses.
- b. Removed a section regarding executive director and staff travel which seemed out of place in this policy. Furthermore, those two issues are covered in the personnel handbook. As a reminder, the executive director's travel may be reviewed annually during the executive director's evaluation.
- c. Added additional examples of in-state travel that do not require prior express approval.
- d. Removed a section regarding a limitation on overnight stays. The provision previously required the trustee to be 50 miles from home before a hotel charge would be reimbursed. We believe this is noncompliant with state law requiring that trustees be reimbursed for necessary expenses.

- e. Changed the per diem rates from the Office of Administration rates (and the federal CONUS rates for out-of-state travel) to a standardized per diem for in-state travel, and a second for out-of-state and international travel. This is intended to simplify office procedures, eliminate confusion and clerical errors and provide a more representative per diem for MPERS' travel.
- f. Removed section defining breakfast/lunch/dinner times and departure from home as requirements to receive a per diem. These requirements were contrary to the statute cited above.

Investment Policy

- a. Added a provision requiring the general consultant to provide a review of and an annual report to the board on the appropriateness of the policy benchmarks, etc.
- b. Revised ongoing manager evaluation requirements to forego meetings with managers in the redemption phase where investments are valued at \$1 million or less; however, such inactivity would still be reported annually to the board.
- c. Made an addition to the Anti-Terrorism provision to include the responsibilities of MPERS' custodian bank, including that the bank will comply with the requirements mandated by the US Department of the Treasury – Office of Foreign Assets Control.

Executive Director Charter: Added the flexibility to exceed the proposed budget by no more than two percent annually (*i.e.*, per fiscal year) for purposes other than salary and benefits, with subsequent notice to the Board.

Chief Investment Officer (CIO) Charter

- a. Relocated a provision to the Investment Policy regarding the consultant providing an assessment of the appropriateness of MPERS' benchmarks (see 3 above).
- b. The CIO will provide asset allocation reports to the director to be presented to and discussed with the Board and/or Investment Committee as needed (this is already being done, but it was not in the policy).
- c. The CIO will provide an annual report to the Board that all manager due diligence visits were conducted, or an explanation as to why they were not.
- d. The CIO will provide investment accounting support to the chief financial officer as needed (this is already being done, but it was not in the policy).

Ms. Cox made a motion to accept the changes as recommended. Mr. Smith seconded the motion. By unanimous vote of all members present, the motion carried.

- **Service Transfer Agreements:**

At the recent Governance Committee meeting, Mr. Simon recommended MPERS terminate the contractual relationship with the County Employees' Retirement Fund (CERF) as it relates to the service transfer agreement provided under Section 104.1090 RSMo.

With the creation of the Year 2000 Plan in 1999 came a statutory provision intended to facilitate public employment in the state by implementing portability of service credit among the various public pension plans. Section 104.1090, RSMo., provides a free transfer of service for members with at least ten years of service to receive additional service credit for previous public employment within the state covered by another retirement plan, if all of the following conditions are met:

- Such member has a vested right to receive a retirement benefit from the other plan,
- The other retirement plan transfers an amount equal to the employees' account balance or benefit obligation to MPERS,
- No such credited service remains in the other plan subsequent to the transfer,
- The member applies for this credit before the retirement date,
- The other retirement plan enters in an agreement with MPERS to comply with the provisions of this section, and
- Any member electing this transfer must be covered by the Year 2000 Plan.

MPERS currently has service transfer agreements with the following systems to utilize this transfer:

- County Employees' Retirement Fund (CERF)
- University of Missouri
- Employees Retirement System of the City of St. Louis
- Community Fire Protection District
- City of Arnold
- St. Louis County Retirement Plans

Although well intended, Mr. Simon's opinion is that the transfer provision has not been particularly useful to fulfill its purpose and in most all cases it has been detrimental to the funded status of MPERS. The committee asked if the other agreements were also detrimental. Mr. Simon stated they were, but likely not to the extent as the transfers from CERF.

The committee asked if the agreements were terminated, could employees purchase the service some other way. Mr. Simon indicated that Section 105.691 RSMo., does allow purchase of service. Since the early 1990s the provisions of Section 105 have offered a process, with neutral economic implications to MPERS, for members to receive credit for other qualifying public sector service rendered in the state of Missouri. Retirement plans as defined by this section (which includes all the plans with 104.1090 agreements) may enter into cooperative agreements to transfer service from their plan to MPERS, and vice versa. Upon the member's election to make said transfer, the transferring system sends the benefit obligation to the receiving system. The receiving system would determine how much service credit that obligation would cover and apply credit accordingly. Any balance of service not covered by that fund transfer is available for purchase by the member at full actuarial cost. These provisions provide no harm to the receiving system, unlike the transfer provisions under Section 104.1090, RSMo.

After discussion, the committee subsequently expanded Mr. Simon's recommendation to terminate all service transfer agreements connected with the 104.1090 RSMo. transfer provision. The committee directed staff to provide additional details on the funding shortfall along with other relevant facts to justify their recommendation and for the full Board's consideration at the November 17th meeting.

Mr. Simon stated the other agreements typically did provide more substantial funding coverage for the assumed liability of the service, but in all situations MPERS would recognize a financial loss by accepting the transfers. MPERS took on significantly more liability from these transfers than it was provided with the corresponding asset transfer. The liability that is paid to MPERS for those transfers is substantially below the actuarial equivalent cost of the service in MPERS' plan.

Mr. Simon recommended the Board support the committee’s recommendation to terminate all of the Section 104.1090, RSMo., service transfer agreements. Mr. Simon suggested notification to the affected plans that the agreements will be terminated as of December 31, 2016 and to reference the agreement covered under Section 105.691, RSMo., as alternative means for transferring service. MPERS staff would also post prompt notice to membership of this decision.

Representative Rhoads made a motion to terminate all service transfer agreements with those entities. Mr. Tyler seconded the motion. By unanimous vote of all members present, the motion carried.

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LEGISLATION

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon informed the Board of potential legislation to modify the 2011 Tier vesting. He will provide additional details as things develop.

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2017 BOARD MEETING DATES

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon stated the MPERS Board approves an annual Board Meeting Calendar at the last scheduled meeting of the year, for the upcoming year. A proposed meeting schedule for calendar year 2017 was provided. Mr. Simon stated the annual MAPERS Conference would satisfy the outside continuing education program for Trustees. Upon a motion by Ms. Cox, and seconded by Mr. Smith, the Board approved the following Board Meeting Calendar for 2017:

Board Meeting Calendar	MAPERS Conference
Thursday, February 23, 2017 Thursday, April 27, 2017* Thursday, June 22, 2017 Thursday, September 28, 2017 Thursday, November 16, 2017** *Only if needed for legislative session **Board Workshop precedes meeting	July 12-14, 2017 The MAPERS Conference will be held at Tan-Tar-A Resort in Osage Beach. There is generally an education session for Trustees on Wednesday afternoon (July 12 th) in conjunction with the conference.

To minimize potential for any conflicts, Mr. Simon asked Trustees to add these dates to their calendars.

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DIRECTOR’S COMMENTS

- **November Board Workshop Feedback**

Mr. Simon requested Trustees call or email him to provide feedback on the Board Workshop regarding the agenda, location, topics discussed, etc.

- **Personnel Policies**

Mr. Simon informed the Board that staff has recently reviewed and updated MPERS' Personnel Policies.

- **Webinar Series**

Mr. Simon stated he recorded a new webinar regarding funding and it has been posted to the MPERS' website for members to view.

- **Update from the Assistant Executive Director**

Mr. Greg Beck indicated the SilverSky product, a software monitoring system, has been installed and is providing protection as expected. Huber has reported it is working well and has blocked approximately 15% of all incoming traffic as it deemed them to be security threats to the system.

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TRUSTEES' COMMENTS

None.

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2017 CONFERENCES *(Consent Agenda)*

The Board was provided with a list of 2017 Conferences which provide education opportunities for Trustees.

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REPORT ON TRUSTEE EDUCATION – FY2017 *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the "Report on Trustee Education" for FY2017. Via approval of the consent agenda, the Board unanimously accepted the report.

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MEMBERSHIP INFORMATION *(Consent Agenda)*

- **Benefit Payments and Member Data – October 2016**

The Executive Director provided current member and benefit data to the Board. Via approval of the consent agenda, the Board unanimously accepted the reports.

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RETIREMENT INCEPTIONS *(Consent Agenda)*

The Executive Director provided the Board with a summary of retirement inceptions for the months of July 2016 through October 2016. Via approval of the consent agenda, the Board unanimously accepted the report.

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VOTE TO CLOSE MEETING

The Board voted to close its meeting on November 17, 2016, citing Sections 610.021(3) and (13), RSMo., *Personnel administration regarding particular employees*. Upon a motion made by Mr. Smith and seconded by Ms. Cox to convene in closed session, the following roll call vote was taken:

Colonel J. Bret Johnson, Aye
Ms. Sue W. Cox, Aye
Mr. John Briscoe, Aye
Mr. Patrick McKenna, Aye
Mr. Mike Pace, Aye
Representative Shawn Rhoads, Aye
Mr. William "Bill" Seibert, Aye
Major Kemp Shoun, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye

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REPORT FROM CLOSED SESSION

~ presented by Colonel J. Bret Johnson, Board Chair

• **Personnel Issues**

As a result of the Executive Director's performance evaluation, the Board approved to adjust the Executive Director's compensation effective December 1, 2016.

ADJOURN

A motion to adjourn was made by Mr. Pace and seconded by Mr. Tyler. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

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